KSE PARTNERS LLP
government affairs & strategic communications

26 State Street, Suite 8
Montpelier, VT 05602-2943
802 229 4900
kse@ksepartners.com
www.ksepartners.com

1800 Diagonal Road, Suite 600
Alexandria, VA 22314
202 580 6544
leif@ksefocus.com
www.ksefocus.com

Testimony of
Scott Mackey
on
HB 2255

Senate Assessment and Taxation Committee
March 19, 2013

Chairman Donovan and members of the committee, thank you for the opportunity to testify on HB 2255. I appear today on behalf of AT&T, Sprint, T-Mobile, U.S. Cellular, and Verizon to express support for this important economic development legislation.

This bill would provide a refund of sales taxes paid on equipment deployed by telecommunications providers to maintain and upgrade their networks. Unfortunately, Kansas is one of the 28 states that impose sales taxes on equipment purchased by telecommunications providers for their networks. These sales taxes increase the cost of investment and divert investment from equipment to state government coffers, thus reducing overall investment in what has arguably become the state's most important infrastructure for the 21st Century information economy.

The attached map shows how states treat both manufacturing equipment and telecommunications network investments under the sales tax. In the Midwest region, North Dakota and Iowa are the most recent states to exempt network equipment from the sales tax.

In the new economy, investment in high-speed broadband networks has become every bit as important as investments in railroads and the Interstate highway system were in the past. For example, wireless carriers are currently racing to deploy fourth generation (known as "4G" or LTE) wireless networks across the country. Businesses, governments, and consumers increasingly need the high capacity and fast speeds that these networks provide in order to take full advantage of all the new wireless tools available to boost productivity. Logistics and fleet management, remote sensing and monitoring, irrigation and crop management, remote education, on-line government – all these and many more productivity enhancements can only be used to their full potential when high speed networks are broadly deployed.

This legislation, by eliminating the taxation of network investments, would result in faster deployment of networks in two ways. First, the roughly $16 million on revenues that would no longer flow to the state of Kansas would instead be spent on the networks. Second, eliminating the sales tax on proposed Kansas investments would improve the rate of return calculation for projects in Kansas as compared to other states that impose the sales tax on investment. This would attract new capital to Kansas that is currently being deployed in other states.

Dr. Raul Katz recently completed a study for the Broadband Tax Institute that sought to determine what impact sales taxes have on overall levels of communications network investments.[1] Based on five years of actual investment data from national communications companies that represent about 80% of total investment, the study found that sales taxes do matter. Dr. Katz looked at four state "case studies" – two states that recently reduced or eliminated taxes on network investments (North Dakota and Iowa) and two states that recently increased taxes on network investments (Massachusetts and South Carolina). Iowa and North Dakota both saw investment increase after the tax reductions; Massachusetts and South Carolina both saw investment decrease after the tax increases.

The Katz study found that eliminating the sales tax on network investments would lead to additional investment. This in turn would lead to higher employment and significant new economic activity. The study found that, while the initial economic impact would result directly from activities related to deploying network upgrades, much of the longer term economic benefit from the investment would accrue to users of the networks in the form of higher productivity.

This new economic activity would, over time, generate additional tax revenues that would offset a significant portion of the initial revenue losses. Based on the case studies from seven states, Kansas could expect to recoup around 20% of the cost of the exemption within three years through additional state and local taxes related to higher gross state product that results from additional network investment and utilization.

Currently, like most states, Kansas exempts machinery and equipment purchased by manufacturers from sales taxes. This longstanding policy recognizes that sales taxes should be imposed on final consumption, in order to avoid the pyramiding of taxes. The manufacturing exemption helps the state compete for investment by manufacturers by ensuring that they do not have a built-in price disadvantage if they locate in Kansas. Passage of this bill would make tax policy consistent by applying the same sound economic principle to telecommunications investments.

Telecommunications network investments are critical to state economies in the information economy. This is investment that does not cost state or local governments a penny. However, state and local governments can either encourage or inhibit investment based on their tax policies. This legislation is a common sense, relatively inexpensive way to signal to the industry that Kansas welcomes and encourages investment in broadband networks.

---

[1] Raul Katz, Ph.D. "Assessment of the Economic Impact of Taxation on Communications Investment in the United States." October, 2012. Study available at www.broadbandtax.org